

What is credit?

Credit is when you borrow money, like from a bank or a credit card company, and agree to pay it back later.

Loans and mortgages are credit for big purchases like cars or houses. Credit cards and overdrafts are credit, often used for smaller spending, like holidays or a new TV.

You must be over 18 to borrow money, because when you do, you enter into a contractual agreement with the lender. This contract explains how much you're borrowing, when you'll pay it back, and any extra costs.

Imagine you buy a games console for £250 using a credit card with 5% interest. You pay back £50 at the end of the month. Your remaining balance is £200.

Interest is charged on what's left. 5% of £200 is £10, so your new balance is £210.

Next month you pay another £50, and your balance goes down to £160. 5% interest is added again. That's an additional £8. You still owe £168.

Paying a little each month reduces your debt, but the interest keeps it from dropping as quickly as you might expect.

Remember, credit can be useful, but it always comes with responsibility, and usually, you pay back more than you borrowed.